

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CHARTER TOWNSHIP OF NILES	County BERRIEN
Fiscal Year End 12/31/2006	Opinion Date 06/19/2007	Date Audit Report Submitted to State 06/28/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

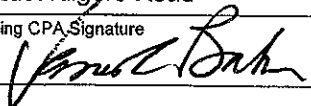
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe) SAS 112 REPORT	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Siegfried Crandall, PC		Telephone Number (269) 381-4970		
Street Address 246 East Kilgore Road		City KALAMAZOO	State MI	Zip 49002
Authorizing CPA Signature 		Printed Name James C. Baker		License Number 1101010743

Charter Township of Niles
Berrien County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Short year ended December 31, 2006

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INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Charter Township of Niles, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of December 31, 2006, and for the short year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Niles, Michigan, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows thereof for the short year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information and schedule of funding progress on pages 29 through 33 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Charter Township of Niles has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Niles, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Charter Township of Niles, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sigfried Crandall P.C.

June 19, 2007

BASIC FINANCIAL STATEMENTS

Charter Township of Niles
STATEMENT OF NET ASSETS
December 31, 2006

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 2,468,938	\$ 3,401,902	\$ 5,870,840
Receivables, net	1,297,971	475,738	1,773,709
Interfund balances	<u>(10,540)</u>	<u>11,020</u>	<u>480</u>
Total current assets	<u>3,756,369</u>	<u>3,888,660</u>	<u>7,645,029</u>
Noncurrent assets:			
Receivables, noncurrent	26,191	1,859,338	1,885,529
Deferred charges	-	45,649	45,649
Capital assets not being depreciated - land	94,311	-	94,311
Capital assets, net of accumulated depreciation	<u>3,011,327</u>	<u>11,971,743</u>	<u>14,983,070</u>
Total noncurrent assets	<u>3,131,829</u>	<u>13,876,730</u>	<u>17,008,559</u>
Total assets	<u>6,888,198</u>	<u>17,765,390</u>	<u>24,653,588</u>
LIABILITIES			
Current liabilities:			
Payables	71,546	486,728	558,274
Deferred revenue	<u>1,344,776</u>	<u>-</u>	<u>1,344,776</u>
Total current liabilities	1,416,322	486,728	1,903,050
Long-term debt	<u>-</u>	<u>1,778,704</u>	<u>1,778,704</u>
Total liabilities	<u>1,416,322</u>	<u>2,265,432</u>	<u>3,681,754</u>
NET ASSETS			
Invested in capital assets	3,105,638	10,238,688	13,344,326
Restricted:			
Debt service	-	1,564,299	1,564,299
Cemetery	6,847	-	6,847
Public safety	146,496	-	146,496
Public works	16,109	-	16,109
Unrestricted	<u>2,196,786</u>	<u>3,696,971</u>	<u>5,893,757</u>
Total net assets	<u>\$ 5,471,876</u>	<u>\$ 15,499,958</u>	<u>\$ 20,971,834</u>

See notes to the financial statements

Charter Township of Niles
STATEMENT OF ACTIVITIES
Short year ended December 31, 2006

		<u>Program revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>
Functions/Programs			contributions	contributions
Governmental activities:				
Legislative	\$ 69,165	\$ -	\$ -	\$ -
General government	530,437	9,888	-	-
Public safety	1,514,053	307,101	-	-
Public works	84,488	34,744	9,903	-
Recreation and culture	83,659	1,885	-	-
Community and economic development	39,276	6,250	-	-
Total governmental activities	<u>2,321,078</u>	<u>359,868</u>	<u>9,903</u>	<u>-</u>
Business-type activities:				
Sewer	1,095,020	907,092	-	-
Water	<u>177,478</u>	<u>119,891</u>	<u>-</u>	<u>1,789,602</u>
Total business-type activities	<u>1,272,498</u>	<u>1,026,983</u>	<u>-</u>	<u>1,789,602</u>
Totals	<u>\$ 3,593,576</u>	<u>\$ 1,386,851</u>	<u>\$ 9,903</u>	<u>\$ 1,789,602</u>

General revenues:
State grants
Investment return

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (69,165)		\$ (69,165)
(520,549)		(520,549)
(1,206,952)		(1,206,952)
(39,841)		(39,841)
(81,774)		(81,774)
<u>(33,026)</u>		<u>(33,026)</u>
 <u>(1,951,307)</u>		 <u>(1,951,307)</u>
-	\$ (187,928)	(187,928)
<u>-</u>	<u>1,732,015</u>	<u>1,732,015</u>
 <u>-</u>	 <u>1,544,087</u>	 <u>1,544,087</u>
<u>(1,951,307)</u>	<u>1,544,087</u>	<u>(407,220)</u>
 845,317	-	845,317
<u>71,612</u>	<u>176,519</u>	<u>248,131</u>
<u>916,929</u>	<u>176,519</u>	<u>1,093,448</u>
(1,034,378)	1,720,606	686,228
<u>6,506,254</u>	<u>13,779,352</u>	<u>20,285,606</u>
<u>\$ 5,471,876</u>	<u>\$ 15,499,958</u>	<u>\$ 20,971,834</u>

See notes to the financial statements

Charter Township of Niles
BALANCE SHEET - governmental funds
December 31, 2006

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
ASSETS			
Cash	\$ 909,227	\$ 422,958	\$ 236,982
Receivables, net	566,610	464,749	186,075
Due from other funds	<u>1,552,573</u>	<u>20,411</u>	<u>7,000</u>
Total assets	<u>\$ 3,028,410</u>	<u>\$ 908,118</u>	<u>\$ 430,057</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payables	\$ 51,200	\$ 9,723	\$ 100
Due to other funds	-	7,000	1,508,585
Deferred revenue	<u>293,819</u>	<u>744,899</u>	<u>297,839</u>
Total liabilities	<u>345,019</u>	<u>761,622</u>	<u>1,806,524</u>
Fund balances:			
Unreserved, undesignated	1,174,806	146,496	(1,376,467)
Reserved	1,508,585	-	-
Unreserved, undesignated of nonmajor funds:			
Special revenue	-	-	-
Capital project	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficit)	<u>2,683,391</u>	<u>146,496</u>	<u>(1,376,467)</u>
Total liabilities and fund balances	<u>\$ 3,028,410</u>	<u>\$ 908,118</u>	<u>\$ 430,057</u>

Total fund balances

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Certain assets are not considered available financial resources and, therefore, are deferred in the funds.

Net assets of *governmental activities* (page 5)

<i>Other governmental funds</i>	<i>Total</i>
\$ 889,688	\$ 2,458,855
60,161	1,277,595
<u>59,504</u>	<u>1,639,488</u>
<u>\$ 1,009,353</u>	<u>\$ 5,375,938</u>

\$ 2,885	\$ 63,908
85,431	1,601,016
<u>48,062</u>	<u>1,384,619</u>
<u>136,378</u>	<u>3,049,543</u>

-	(55,165)
-	1,508,585

633,586	633,586
<u>239,389</u>	<u>239,389</u>
<u>872,975</u>	<u>2,326,395</u>
<u>\$ 1,009,353</u>	<u>\$ 5,375,938</u>

\$ 2,326,395

3,105,638

39,843

\$ 5,471,876

See notes to the financial statements

Charter Township of Niles**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCES - governmental funds***Short year ended December 31, 2006*

	<u>General</u>	<u>Fire Operating</u>	<u>Fire Equipment</u>
REVENUES			
Taxes	\$ 12,681	\$ 807	\$ 249
State grants	855,220	-	-
Local units of government	-	58,246	-
Fines and forfeitures	1,007	-	-
Licenses and permits	225,718	-	-
Charges for services	31,441	100	-
Interest and rentals	159,046	15,364	6,766
Other	1,487	4,872	-
	<u>1,286,600</u>	<u>79,389</u>	<u>7,015</u>
Total revenues			
	<u>1,286,600</u>	<u>79,389</u>	<u>7,015</u>
EXPENDITURES			
Legislative	69,165	-	-
General government	496,558	-	374
Public safety	760,630	617,865	-
Public works	34,943	-	-
Recreation and culture	58,252	-	-
Community and economic development	39,276	-	-
Capital outlay	18,535	-	73,946
Interest	-	-	108,139
	<u>1,477,359</u>	<u>617,865</u>	<u>182,459</u>
Total expenditures			
	<u>1,477,359</u>	<u>617,865</u>	<u>182,459</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(190,759)	(538,476)	(175,444)
FUND BALANCES - BEGINNING	<u>2,874,150</u>	<u>684,972</u>	<u>(1,201,023)</u>
FUND BALANCES - ENDING	<u>\$ 2,683,391</u>	<u>\$ 146,496</u>	<u>\$ (1,376,467)</u>

<i>Other governmental funds</i>	<i>Total</i>
\$ -	\$ 13,737
-	855,220
-	58,246
-	1,007
-	225,718
-	31,541
28,194	209,370
<u>36,399</u>	<u>42,758</u>
 64,593	 1,437,597
 -	 69,165
537	497,469
-	1,378,495
36,791	71,734
-	58,252
-	39,276
11,779	104,260
<u>-</u>	<u>108,139</u>
 49,107	 2,326,790
 15,486	 (889,193)
<u>857,489</u>	<u>3,215,588</u>
 <u>\$ 872,975</u>	 <u>\$ 2,326,395</u>

See notes to the financial statements

Charter Township of Niles

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Short year ended December 31, 2006

Net change in fund balances - total governmental funds (page 8)	\$ (889,193)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Capital assets:

Additions	95,467
Provision for depreciation	(203,316)

Change in deferred revenue	<u>(37,336)</u>
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Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ (1,034,378)</u>
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See notes to the financial statements

Charter Township of Niles
STATEMENT OF NET ASSETS - proprietary funds
December 31, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
ASSETS				
Current assets:				
Cash	\$ 2,228,124	\$ 1,173,778	\$ 3,401,902	\$ 10,083
Receivables	321,712	154,026	475,738	46,567
Due from other funds	552,320	578	552,898	-
Total current assets	3,102,156	1,328,382	4,430,538	56,650
Noncurrent assets:				
Receivables, non-current	390,468	1,468,870	1,859,338	-
Deferred charges	-	45,649	45,649	-
Capital assets, net of accumulated depreciation	8,732,639	3,239,104	11,971,743	-
Total noncurrent assets	9,123,107	4,753,623	13,876,730	-
Total assets	12,225,263	6,082,005	18,307,268	56,650
LIABILITIES				
Current liabilities:				
Payables	116,326	370,402	486,728	7,638
Due to other funds	-	541,878	541,878	49,012
Total current liabilities	116,326	912,280	1,028,606	56,650
Long-term debt	-	1,778,704	1,778,704	-
Total liabilities	116,326	2,690,984	2,807,310	56,650
NET ASSETS				
Invested in capital assets	8,732,639	1,506,049	10,238,688	-
Restricted for debt service	-	1,564,299	1,564,299	-
Unrestricted	3,376,298	320,673	3,696,971	-
Total net assets	\$ 12,108,937	\$ 3,391,021	\$ 15,499,958	\$ -

See notes to the financial statements

Charter Township of Niles

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET

ASSETS - *proprietary funds*

Short year ended December 31, 2006

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
OPERATING REVENUES				
Charges for services	\$ 876,304	\$ 110,912	\$ 987,216	\$ 209,481
Other	30,788	8,979	39,767	-
Total operating revenues	907,092	119,891	1,026,983	209,481
OPERATING EXPENSES				
Contracted services	627,000	33,319	660,319	-
Personnel costs	175,387	26,491	201,878	-
Internal charges	50,112	3,233	53,345	-
Supplies	32,371	5,475	37,846	-
Depreciation	210,150	42,600	252,750	-
Employee benefits	-	-	-	211,727
Total operating expenses	1,095,020	111,118	1,206,138	211,727
Operating income (loss)	(187,928)	8,773	(179,155)	(2,246)
NONOPERATING REVENUES (EXPENSES)				
Interest	129,887	79,285	209,172	2,246
Interest expense	-	(99,013)	(99,013)	-
Total nonoperating revenues (expenses)	129,887	(19,728)	110,159	2,246
LOSS BEFORE SPECIAL ASSESSMENTS	(58,041)	(10,955)	(68,996)	-
Special assessments	-	1,789,602	1,789,602	-
CHANGE IN NET ASSETS	(58,041)	1,778,647	1,720,606	-
NET ASSETS - BEGINNING	12,166,978	1,612,374	13,779,352	-
NET ASSETS - ENDING	<u>\$ 12,108,937</u>	<u>\$ 3,391,021</u>	<u>\$ 15,499,958</u>	<u>\$ -</u>

See notes to the financial statements

Charter Township of Niles
STATEMENT OF CASH FLOWS - proprietary funds
Short year ended December 31, 2006

	Business-type activities			Governmental activities
	Enterprise funds			Internal service
	Sewer	Water	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 914,239	\$ 120,809	\$ 1,035,048	\$ 309,462
Payments to vendors and suppliers	(680,680)	(49,881)	(730,561)	-
Payments to employees	(117,053)	(18,615)	(135,668)	-
Payments of healthcare claims	-	-	-	(319,185)
Internal activity - payments to other funds	(65,800)	(3,233)	(69,033)	-
Net cash provided by (used in) operating activities	50,706	49,080	99,786	(9,723)
CASH FLOWS FROM NON-CAPITAL FINANCING				
Decrease in interfund balances	21,895	-	21,895	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from issuance of debt	-	1,777,500	1,777,500	-
Collections on special assessments	-	207,564	207,564	-
Acquisition of capital assets	(11,647)	(1,109,472)	(1,121,119)	-
Deferred financing charges	-	(49,021)	(49,021)	-
Decrease in interfund balances	-	(21,895)	(21,895)	-
Interest paid	-	(57,233)	(57,233)	-
Net cash provided by (used in) capital and related financing activities	(11,647)	747,443	735,796	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	98,217	52,987	151,204	2,246
NET INCREASE (DECREASE) IN CASH	159,171	849,510	1,008,681	(7,477)
CASH - BEGINNING	2,068,953	324,268	2,393,221	17,560
CASH - ENDING	\$ 2,228,124	\$ 1,173,778	\$ 3,401,902	\$ 10,083

See notes to the financial statements

Charter Township of Niles

STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)

Short year ended December 31, 2006

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
Supplementary information:				
Non-cash capital and related financing activities:				
Acquisition of capital assets	\$ (11,647)	\$ (1,449,092)	\$ (1,460,739)	\$ -
Less, increase in payables	-	339,620	339,620	-
Cash used	<u>\$ (11,647)</u>	<u>\$ (1,109,472)</u>	<u>\$ (1,121,119)</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (187,928)	\$ 8,773	\$ (179,155)	\$ (2,246)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	210,150	42,600	252,750	-
(Increase) decrease in:				
Receivables, net	7,147	918	8,065	(16,998)
Due from other funds	(15,688)	(2,323)	(18,011)	50,969
Increase (decrease) in:				
Payables	37,025	(888)	36,137	(90,460)
Due to other funds	-	-	-	49,012
Net cash provided by (used in) operating activities	<u>\$ 50,706</u>	<u>\$ 49,080</u>	<u>\$ 99,786</u>	<u>\$ (9,723)</u>

See notes to the financial statements

Charter Township of Niles
STATEMENT OF FIDUCIARY NET ASSETS
December 31, 2006

	<i>Employee retirement plans</i>	<i>Agency funds</i>
ASSETS		
Cash	\$ 30,836	\$ 1,288,217
Investments	4,614,011	-
Due from other funds	<u>22</u>	<u>-</u>
Total assets	<u>4,644,869</u>	<u>\$ 1,288,217</u>
LIABILITIES		
Payables	5,132	\$ -
Due to other governmental units	-	1,207,054
Due to others	-	81,163
Due to other funds	<u>502</u>	<u>-</u>
Total liabilities	<u>5,634</u>	<u>\$ 1,288,217</u>
NET ASSETS		
Held in trust for employees' pension benefits	<u>\$ 4,639,235</u>	

See notes to the financial statements

Charter Township of Niles

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Short year ended December 31, 2006

	<u>Employee retirement plans</u>
ADDITIONS	
Contributions:	
Employer	\$ 65,958
Participants	<u>77,517</u>
Total contributions	143,475
Investment return	<u>211,364</u>
Total additions	354,839
DEDUCTIONS	
Benefits paid	<u>189,965</u>
NET INCREASE	164,874
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	
Beginning	<u>4,474,361</u>
Ending	<u><u>\$ 4,639,235</u></u>

See notes to financial statements

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Charter Township of Niles, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The Township is governed by an elected board of trustees. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

In June 2006, the Township Board approved a resolution to become a charter township. As a part of the decision to become a charter township, the Board approved a change in its fiscal year, from March 31 to December 31. Accordingly, the accompanying financial statements present activity for the short year (nine months) ending December 31, 2006.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Operating Fund accounts for special voted taxes levied to support operating costs of fire protection and response services.

The Fire Equipment Fund accounts for special voted taxes levied to finance capital outlays used in operating costs of fire protection and response services.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the Township's sewage system and treatment plant.

The Water Fund accounts for the operation of the Township's water mains and pumping facilities.

Additionally, the government reports the following fund types:

The internal service fund accounts for the accumulation and allocation of self-funded healthcare claims program to various Township departments.

The agency funds account for the collection and disbursements of taxes and other monies due to other units of government and individuals.

The pension trust funds account for assets held to provide retirement benefits to eligible participants and their beneficiaries.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iii) Capital assets (continued):

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	15 - 50 years
Furniture, fixtures, and equipment	5 - 15 years
Vehicles	5 - 15 years
Sewer and water systems	50 years

iv) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. However, such benefits must be used within ninety (90) days of year end. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

v) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

vi) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the subsequent year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The Township incurred the following significant budget variances:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public safety	Ordinance enforcement	\$ 12,762	\$ 18,019	\$ 5,257
Fire Equipment	Interest		64,200	108,139	43,939

Deficit equity position - As of December 31, 2006, the Township reported a deficit in the Fire Equipment Fund of \$1,376,467, which arose from the use of a temporary advance from the General Fund to partially finance a new fire station. The Township intends for the fund to repay the advance over the next five years using a special voted tax.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS:

A reconciliation of cash and investments to the Township's deposits and investments, as shown in the government-wide financial statements and in the statement of fiduciary net assets, are as follows:

	<i>Govern- mental activities</i>	<i>Business- type activities</i>	<i>Fiduciary net assets:</i>		
			<i>Employee retirement plans</i>	<i>Agency funds</i>	<i>Total</i>
Cash	\$2,468,938	\$3,401,902	\$ 30,836	\$1,288,217	\$ 7,189,893
Investments	-	-	4,614,011	-	4,614,011
	<u>\$2,468,938</u>	<u>\$3,401,902</u>	<u>\$4,644,847</u>	<u>\$1,288,217</u>	<u>\$11,803,904</u>
Deposits					\$ 4,591,106
Cash on hand					500
Investments					<u>7,212,298</u>
					<u>\$11,803,904</u>

a) Deposits:

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of December 31, 2006, \$3,597,918 of the Township's bank balances of \$4,462,918 was exposed to custodial credit risk because it was uninsured. Of the total bank balances, \$3,697,918 was maintained with one financial institution.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

b) Investments:

State statutes authorize the Township to invest in a) obligations of the U.S. Treasury, agencies, and instrumentalities; b) commercial paper, within three highest rate classifications by at least two national rating services, maturing not later than 270 days; c) repurchase agreements, collateralized by U.S. governmental securities; d) bankers' acceptances; and e) mutual funds holding investments allowable by state statute. State statutes authorize defined benefit plan trusts to invest not more than 65% in common stocks and no more than 5% in real estate holdings. Participant directed defined contribution plans are not subject to limitations as to the nature and extent of holdings.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (continued):

b) Investments (continued):

Investments as of December 31, 2006, consist of the following (reported at fair value):

Police and Fire Pension Trust Fund:	
PIMCO Total Return Fund-D	\$ 1,010,834
PIMCO Low Duration Fund-D	635,271
Vanguard Long-term Bond Index Fund	615,785
American Growth Fund of America	475,884
T Rowe Price Equity Income Fund #71	375,109
Other funds	<u>652,285</u>
	3,765,168
General Government Pension Trust Fund:	
Pooled separate accounts with insurance company	<u>848,843</u>
Total investments of pension trust funds	4,614,011
Michigan CLASS	2,582,365
US government agencies	<u>15,922</u>
Total investments	<u>\$ 7,212,298</u>

Interest rate risk:

The Township has not established an investment policy that addresses interest rate risk. Of the Township's holdings, only the US government agencies holdings are subject to interest rate risk disclosure. As of December 31, 2006, \$899 is due within one year and \$15,023 is due between one and five years.

Credit risk:

The Township has not established an investment policy that addresses credit risk. A money market account held by the Police and fire Pension Trust (\$75,657) and the pooled separate accounts with insurance company holding are not rated as to credit risk. The remaining investment holdings had the following credit risk rating.

	<u>Fair value</u>	<u>Rating</u>	<u>Source</u>
American Growth Fund of America	\$ 475,884	5 star	Morningstar
Other funds	113,560	5 star	Morningstar
PIMCO Total Return Fund-D	1,010,834	4 star	Morningstar
Vanguard Long-term Bond Index Fund	615,785	4 star	Morningstar
Other funds	392,217	4 star	Morningstar
T Rowe Price Equity Income Fund # 71	375,109	4 star	Morningstar
PIMCO Low Duration Fund-D	635,271	3 star	Morningstar
Other funds	70,851	3 star	Morningstar
Michigan CLASS	2,582,365	AAA	Fitchratings
US government securities	15,922	AAA	S & P

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (continued):

b) Investments (continued):

Concentration of credit risk:

The Township has not established an investment policy that addresses concentration of credit risk. With exception as to obligations issued, assumed or guaranteed by the United States, the State limits investments in a single issuer to no more than 5% of total portfolio assets. As of December 31, 2006, no single holding within the Police and Fire Pension Trust Fund represented more than 5% of the total fund.

Custodial credit risk:

The Township has not established an investment policy that addresses custodial credit risk. Of the Township's holdings, only the US government agencies holdings are subject to custodial credit risk disclosure. All U.S. government agencies are uninsured, unregistered and held by the Township's brokerage firm.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows. All amounts shown are considered fully collectible.

	<u>Taxes</u>	<u>Accounts</u>	<u>Inter- govern- mental</u>	<u>Special assess- ments</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:						
General	\$ 183,638	\$ 49,538	\$ 333,434	\$ -	\$ -	\$ 566,610
Fire Operating	464,749	-	-	-	-	464,749
Fire Equipment	186,075	-	-	-	-	186,075
Other governmental funds	-	-	-	59,900	281	60,181
Total	<u>\$ 834,462</u>	<u>\$ 49,538</u>	<u>\$ 333,434</u>	<u>\$ 59,900</u>	<u>\$ 281</u>	<u>\$ 1,277,615</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,191</u>	<u>\$ -</u>	<u>\$ 26,191</u>
Proprietary funds:						
Sewer	\$ -	\$ 320,415	\$ -	\$ 366,407	\$ 25,358	\$ 712,180
Water	-	14,560	-	1,581,038	27,298	1,622,896
Total	<u>\$ -</u>	<u>\$ 334,975</u>	<u>\$ -</u>	<u>\$ 1,947,445</u>	<u>\$ 52,656</u>	<u>\$ 2,335,076</u>
Amounts due beyond one year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,859,338</u>	<u>\$ -</u>	<u>\$ 1,859,338</u>
Internal service fund	<u>\$ -</u>	<u>\$ 46,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,567</u>

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Depreciable assets:				
Building	\$ 2,380,835	\$ 25,906	\$ -	\$ 2,406,741
Land improvements	355,175	2,845	-	358,020
Vehicles	1,113,662	44,237	-	1,157,899
Equipment	443,794	20,512	-	464,306
Streets	63,276	-	-	63,276
Subtotal	<u>4,356,742</u>	<u>93,500</u>	<u>-</u>	<u>4,450,242</u>
Less accumulated depreciation for:				
Building	(384,800)	(59,844)	-	(444,644)
Land improvements	(213,169)	(23,773)	-	(236,942)
Vehicles	(412,267)	(79,189)	-	(491,456)
Equipment	(224,097)	(37,979)	-	(262,076)
Streets	(1,266)	(2,531)	-	(3,797)
Subtotal	<u>(1,235,599)</u>	<u>(203,316)</u>	<u>-</u>	<u>(1,438,915)</u>
Total capital assets being depreciated, net	3,121,143	(109,816)	-	3,011,327
Other assets - land	<u>92,344</u>	<u>1,967</u>	<u>-</u>	<u>94,311</u>
Governmental activities capital assets, net	<u>\$ 3,213,487</u>	<u>\$ (107,849)</u>	<u>\$ -</u>	<u>\$ 3,105,638</u>
Business-type activities:				
Sewer system	\$ 13,871,917	\$ 11,647	\$ -	\$ 13,883,564
Water system	<u>2,838,003</u>	<u>1,449,092</u>	<u>-</u>	<u>4,287,095</u>
Subtotal	<u>16,709,920</u>	<u>1,460,739</u>	<u>-</u>	<u>18,170,659</u>
Less accumulated depreciation for:				
Sewer system	(4,940,775)	(210,150)	-	(5,150,925)
Water system	<u>(1,005,391)</u>	<u>(42,600)</u>	<u>-</u>	<u>(1,047,991)</u>
Subtotal	<u>(5,946,166)</u>	<u>(252,750)</u>	<u>-</u>	<u>(6,198,916)</u>
Business-type activities capital assets, net	<u>\$ 10,763,754</u>	<u>\$ 1,207,989</u>	<u>\$ -</u>	<u>\$ 11,971,743</u>

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

Depreciation expense was charged to governmental activities programs of the Township as follows:

General government	\$ 31,458
Public safety	135,331
Public works	12,754
Recreation and culture	<u>23,773</u>
	<u>\$ 203,316</u>

NOTE 6 - PAYABLES:

Payables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows.

	<u>Accounts</u>	<u>Payroll</u>	<u>Health claims</u>	<u>Interest</u>	<u>Total</u>
Governmental funds:					
General	\$ 42,431	\$ 8,769	\$ -	\$ -	\$ 51,200
Fire Operating	2,912	6,811	-	-	9,723
Fire Equipment	100	-	-	-	100
Other governmental funds	<u>2,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,885</u>
Total	<u>\$ 48,328</u>	<u>\$ 15,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,908</u>
Business-type funds:					
Sewer	\$ 114,380	\$ 1,946	\$ -	\$ -	\$ 116,326
Water	<u>339,177</u>	<u>333</u>	<u>-</u>	<u>30,892</u>	<u>370,402</u>
Total	<u>\$ 453,557</u>	<u>\$ 2,279</u>	<u>\$ -</u>	<u>\$ 30,892</u>	<u>\$ 486,728</u>
Internal service fund	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 7,488</u>	<u>\$ -</u>	<u>\$ 7,638</u>

NOTE 7- DEFERRED REVENUE:

Deferred revenue recorded in governmental funds as of December 31, 2006, represents both unearned and unavailable financial resources.

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes	\$ -	\$ 1,336,557	\$ 1,336,557
Special assessments	<u>39,843</u>	<u>8,219</u>	<u>48,062</u>
Total	<u>\$ 39,843</u>	<u>\$ 1,344,776</u>	<u>\$ 1,384,619</u>

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances as of December 31, 2006, is as follows:

<u>Fund</u>	<u>Interfund receivable</u>	<u>Fund</u>	<u>Interfund payable</u>
General	\$ 1,552,573	Fire Equipment	\$ 1,508,585
		Other governmental funds	24,874
		Health Claims	<u>19,114</u>
			<u>1,552,573</u>
Fire Operating	20,411	Other governmental funds	1,533
		Health Claims	<u>18,878</u>
			<u>20,411</u>
Fire Equipment	7,000	Fire Operating	<u>7,000</u>
Other governmental funds	59,504	Other governmental funds	<u>59,504</u>
Sewer	552,320	Water	541,878
		Health Claims	<u>10,442</u>
			<u>552,320</u>
Water	<u>578</u>	Health Claims	<u>578</u>
	<u>\$ 2,192,386</u>		<u>\$ 2,192,386</u>

All amounts due from other funds represent advances to other funds to finance operations or capital outlays. The amounts due to the Health Claims Fund represent the cumulative underbilling for allocated costs.

The Fire Equipment Fund is repaying an advance from the General Fund (currently \$1,464,646) as resources become available, with interest at 4.0%.

The Water Fund is repaying an advance from the Sewer Fund (currently, \$504,920) in annual installments of \$48,236, including interest at 5.0%, through September 2021.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 - LONG-TERM DEBT:

Long-term debt consists of 2006 \$1,795,000 Water Improvement Project Special Assessment bonds, (a limited tax obligation). The bonds were issued pursuant to the provisions of Public Act 188, as amended, to finance water system improvements, and are to be repaid primarily from special assessments levied upon benefited properties. The bonds are secured by the full faith and credit of the Township. Changes in long-term debt during the current year were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Business-type activities:				
2006 Water Fund bonds	\$ -	\$ 1,795,000	\$ -	\$ 1,795,000
Less discount	-	(17,500)	(1,204)	(16,296)
	<u>\$ -</u>	<u>\$ 1,777,500</u>	<u>\$ (1,204)</u>	<u>\$ 1,778,704</u>

Future debt requirements at December 31, 2006, are as follows:

<u>Period</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ -	\$ 74,140
2008	125,000	71,640
2009	125,000	66,640
2010	125,000	61,640
2011	125,000	56,640
2012 - 2016	645,000	205,950
2017 - 2021	<u>650,000</u>	<u>69,356</u>
	<u>\$ 1,795,000</u>	<u>\$ 606,006</u>

NOTE 10 - RETIREMENT PLANS:

a) Police and Fire Pension Plan:

i) Plan description:

The Police and Fire Pension Plan (PFPP) is a single-employer defined benefit pension plan administered by the Township. The PFPP provides retirement, disability, and death benefits to eligible police and fire department members and their beneficiaries. Cost of living adjustments are provided to members and beneficiaries at the discretion of the Township. Separately issued financial statements of this plan are not prepared.

ii) Funding policy:

The contribution requirements of plan members and the Township are established and may be amended by Township resolution. Plan members are required to contribute 7.0% of their annual covered salary. For the short year ended December 31, 2006, member contributions totaled \$48,744. The Township is required to contribute at an actuarially determined rate (currently 20.08% of annual covered payroll).

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - RETIREMENT PLANS (continued):

a) Police and Fire Pension Plan (continued):

iii) Annual Pension Cost and Net Pension Obligation:

The Township's annual pension cost for the short year ended December 31, 2006, was \$28,313. The annual required contribution was determined as part of the April 1, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a) 7.5% investment rate of return and b) projected payroll increases of 5.0%. The actuarial value of assets is based on current fair value. The unfunded actuarial accrued liability is being amortized as a level dollar amount over an open period of 15 years.

<u>Fiscal year ended</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
3/31/2005	\$ 115,356	100%	\$ -
3/31/2006	\$ 102,671	100%	\$ -
12/31/2006	\$ 28,313	100%	\$ -

b) General Government Pension Plan:

The General Government Pension Plan (GGPP) is a single-employer defined contribution pension plan administered by the Township. The GGPP provides retirement benefits to all full-time employees other than those covered by the PFPP. Plan provisions and contribution requirements are established and may be amended by the Township Board. Currently, the Township contributes 9.0% of covered salary. Plan members are required to contribute 5.0% of covered salary and may make voluntary contributions subject to IRS limitations. The employer and employee contributions totaled \$37,645 and \$28,773, respectively, for the short year ended December 31, 2006.

NOTE 11 - RISK MANAGEMENT:

The Township is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents and workers' compensation, and casualty are managed through purchased commercial insurance. For all such risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

The Township has established a partially self-funded employee health and medical claims plan for all full-time employees. The plan provides health benefits up to certain annual and life-time stop loss limits. The Township has purchased commercial insurance for claims in excess of these limits. Settled claims of the past three years have not exceeded the commercial coverage. The claims liability of \$7,488 reported at December 31, 2006, is based on estimates of known claims and actuarial computations of incurred but not reported claims.

Charter Township of Niles
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - RISK MANAGEMENT (continued):

Changes in the claims liability amount for the past two years were:

	<i>Year ended:</i>	
	<i>December 31,2006</i>	<i>March 31,2006</i>
Balance - beginning	\$ 97,700	\$ 44,000
Current year claims and changes in estimates	211,727	404,235
Claim payments	<u>(301,939)</u>	<u>(350,535)</u>
Balance - ending	<u>\$ 7,488</u>	<u>\$ 97,700</u>

NOTE 12 - BUILDING INSPECTION ACTIVITIES:

A summary of building inspection fees and direct costs is as follows:

Revenues	\$ 173,870
Expenses	<u>190,693</u>
Deficiency of revenues over expenses	<u>\$ (16,823)</u>

NOTE 13 - PROPERTY TAXES:

The 2006 taxable valuation of the Township totaled \$325,023,126 ad valorem taxes levied consisted of the following:

<i>Fund</i>	<i>rate</i>	<i>Purpose</i>	<i>raised</i>
General	0.8798	General operations	\$ 282,855
Fire Operating	2.5000	Public safety operations	744,539
Fire Equipment	1.0000	Capital outlays	297,799

This amount is recognized in the financial statements as taxes receivable, with an offsetting credit to deferred revenue. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

REQUIRED SUPPLEMENTARY INFORMATION

Charter Township of Niles
BUDGETARY COMPARISON SCHEDULE - General Fund
Short year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 303,420	\$ 26,535	\$ 12,681	\$ (13,854)
State grants	1,026,000	1,026,000	855,220	(170,780)
Fines and forfeitures	2,000	2,000	1,007	(993)
Licenses and permits	250,766	292,766	225,718	(67,048)
Charges for services	49,000	49,000	31,441	(17,559)
Interest and rentals	94,900	95,140	159,046	63,906
Other	-	-	1,487	1,487
	<u>1,726,086</u>	<u>1,491,441</u>	<u>1,286,600</u>	<u>(204,841)</u>
EXPENDITURES				
Legislative	<u>68,430</u>	<u>83,430</u>	<u>69,165</u>	<u>14,265</u>
General government:				
Supervisor	96,890	108,890	83,991	24,899
Elections	17,960	17,960	16,343	1,617
Assessor	80,176	118,396	100,618	17,778
Clerk	81,202	90,202	72,212	17,990
Board of Review	996	996	269	727
Treasurer	116,202	116,502	98,252	18,250
Hall and grounds	91,957	91,957	70,207	21,750
Other	<u>55,500</u>	<u>63,220</u>	<u>54,666</u>	<u>8,554</u>
Total general government	<u>540,883</u>	<u>608,123</u>	<u>496,558</u>	<u>111,565</u>
Public safety:				
Police department	707,143	709,546	551,918	157,628
Building inspection	241,454	241,567	190,693	50,874
Ordinance enforcement	<u>11,562</u>	<u>12,762</u>	<u>18,019</u>	<u>(5,257)</u>
Total public safety	<u>960,159</u>	<u>963,875</u>	<u>760,630</u>	<u>203,245</u>
Public works:				
Highways and streets	62,185	62,185	32,346	29,839
Street lighting	3,000	3,000	2,523	477
Drains	<u>300</u>	<u>300</u>	<u>74</u>	<u>226</u>
Total public works	<u>65,485</u>	<u>65,485</u>	<u>34,943</u>	<u>30,542</u>

Charter Township of Niles**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Short year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Recreation and culture	<u>\$ 89,518</u>	<u>\$ 81,518</u>	<u>\$ 58,252</u>	<u>\$ 23,266</u>
Community and economic development:				
Planning and zoning	<u>51,317</u>	<u>52,817</u>	<u>38,172</u>	<u>14,645</u>
Community development	<u>6,000</u>	<u>6,004</u>	<u>1,104</u>	<u>4,900</u>
Total community and economic development	<u>57,317</u>	<u>58,821</u>	<u>39,276</u>	<u>19,545</u>
Capital outlay	<u>-</u>	<u>21,187</u>	<u>18,535</u>	<u>2,652</u>
Total expenditures	<u>1,781,792</u>	<u>1,882,439</u>	<u>1,477,359</u>	<u>405,080</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(55,706)</u>	<u>(390,998)</u>	<u>(190,759)</u>	<u>200,239</u>
FUND BALANCES - BEGINNING	<u>2,874,150</u>	<u>2,874,150</u>	<u>2,874,150</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 2,818,444</u>	<u>\$ 2,483,152</u>	<u>\$ 2,683,391</u>	<u>\$ 200,239</u>

Charter Township of Niles**BUDGETARY COMPARISON SCHEDULE - Fire Operating Fund***Short year ended December 31, 2006*

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 696,002	\$ -	\$ 807	\$ 807
Local units of government	54,351	54,351	58,246	3,895
Charges for services	1,000	-	100	100
Interest and rentals	12,000	12,000	15,364	3,364
Other	<u>6,700</u>	<u>6,700</u>	<u>4,872</u>	<u>(1,828)</u>
 Total revenues	 770,053	 73,051	 79,389	 6,338
 EXPENDITURES				
Public safety	<u>726,440</u>	<u>773,440</u>	<u>617,865</u>	<u>155,575</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 43,613	 (700,389)	 (538,476)	 161,913
 FUND BALANCES - BEGINNING	 <u>684,972</u>	 <u>684,972</u>	 <u>684,972</u>	 <u>-</u>
 FUND BALANCES - ENDING	 <u>\$ 728,585</u>	 <u>\$ (15,417)</u>	 <u>\$ 146,496</u>	 <u>\$ 161,913</u>

Charter Township of Niles

BUDGETARY COMPARISON SCHEDULE - Fire Equipment Fund

Short year ended December 31, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 278,384	\$ -	\$ 249	\$ 249
Interest and rentals	5,000	5,000	6,766	1,766
Other	-	-	-	-
Total revenues	<u>283,384</u>	<u>5,000</u>	<u>7,015</u>	<u>2,015</u>
EXPENDITURES				
General government	500	500	374	126
Capital outlay	95,000	95,000	73,946	21,054
Interest	<u>64,200</u>	<u>64,200</u>	<u>108,139</u>	<u>(43,939)</u>
Total expenditures	<u>159,700</u>	<u>159,700</u>	<u>182,459</u>	<u>(22,759)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	123,684	(154,700)	(175,444)	(20,744)
FUND BALANCES - BEGINNING	<u>(1,201,023)</u>	<u>(1,201,023)</u>	<u>(1,201,023)</u>	-
FUND BALANCES - ENDING	<u>\$ (1,077,339)</u>	<u>\$ (1,355,723)</u>	<u>\$ (1,376,467)</u>	<u>\$ (20,744)</u>

Charter Township of Niles**REQUIRED SUPPLEMENTARY INFORMATION****Schedule of funding progress for Police and Fire Pension Plan**

<i>Actuarial valuation date April 1,</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial Accrued Liability (AAL) - Entry age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll (b-a)/c</i>
1992	\$ 1,913,611	\$ 2,148,405	\$ 234,794	89.1%	\$ 503,378	46.6%
1997	2,671,899	2,805,804	133,905	95.2%	526,516	25.4%
1999	3,320,380	3,086,346	(234,034)	107.6%	553,940	-42.2%
2001	3,468,445	3,485,349	16,904	99.5%	583,909	2.9%
2003	3,127,745	3,642,748	515,003	85.9%	424,622	121.3%
2005	3,556,256	4,020,181	463,925	88.5%	552,423	84.0%

SUPPLEMENTARY INFORMATION

Charter Township of Niles
COMBINING BALANCE SHEET - other governmental funds
December 31, 2006

	Special revenue funds			
	<u>Budget Stabilization</u>	<u>Revolving Improvement</u>	<u>Special Assessment</u>	<u>Drains</u>
ASSETS				
Cash	\$ 151,350	\$ 130,039	\$ 180,469	\$ 16,109
Receivables, net	-	-	60,161	-
Due from other funds	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 151,350</u>	<u>\$ 130,039</u>	<u>\$ 240,630</u>	<u>\$ 16,109</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ -	\$ -	\$ 2,885	\$ -
Due to other funds	24,394	-	61,037	-
Deferred revenue	-	-	48,062	-
	<u>-</u>	<u>-</u>	<u>48,062</u>	<u>-</u>
Total liabilities	24,394	-	111,984	-
Fund balances:				
Unreserved, undesignated	<u>126,956</u>	<u>130,039</u>	<u>128,646</u>	<u>16,109</u>
Total liabilities and fund balances	<u>\$ 151,350</u>	<u>\$ 130,039</u>	<u>\$ 240,630</u>	<u>\$ 16,109</u>

<u><i>Financing</i></u>	<u><i>Totals</i></u>	<u><i>Capital project fund</i></u>	<u><i>Total other governmental funds</i></u>
\$ 172,332	\$ 650,299	\$ 239,389	\$ 889,688
-	60,161	-	60,161
<u>59,504</u>	<u>59,504</u>	<u>-</u>	<u>59,504</u>
<u>\$ 231,836</u>	<u>\$ 769,964</u>	<u>\$ 239,389</u>	<u>\$ 1,009,353</u>
\$ -	\$ 2,885	\$ -	\$ 2,885
-	85,431	-	85,431
<u>-</u>	<u>48,062</u>	<u>-</u>	<u>48,062</u>
-	136,378	-	136,378
<u>231,836</u>	<u>633,586</u>	<u>239,389</u>	<u>872,975</u>
<u>\$ 231,836</u>	<u>\$ 769,964</u>	<u>\$ 239,389</u>	<u>\$ 1,009,353</u>

Charter Township of Niles**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - other governmental funds***Short year ended December 31, 2006*

	Special revenue funds			
	<u>Budget Stabilization</u>	<u>Revolving Improvement</u>	<u>Special Assessment</u>	<u>Drains</u>
REVENUES				
Interest	\$ -	\$ 4,597	\$ 6,681	\$ 808
Other	-	-	35,898	-
Total revenues	-	4,597	42,579	808
EXPENDITURES				
General government	-	-	-	506
Public works	-	238	28,763	7,790
Capital outlay	-	-	-	-
Total expenditures	-	238	28,763	8,296
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	4,359	13,816	(7,488)
FUND BALANCES - BEGINNING	<u>126,956</u>	<u>125,680</u>	<u>114,830</u>	<u>23,597</u>
FUND BALANCES - ENDING	<u>\$ 126,956</u>	<u>\$ 130,039</u>	<u>\$ 128,646</u>	<u>\$ 16,109</u>

<u><i>Financing</i></u>	<u><i>Totals</i></u>	<u><i>Capital project fund</i></u>	<u><i>Total other governmental funds</i></u>
\$ 6,751	\$ 18,837	\$ 9,357	\$ 28,194
501	36,399	-	36,399
<u>7,252</u>	<u>55,236</u>	<u>9,357</u>	<u>64,593</u>
31	537	-	537
-	36,791	-	36,791
<u>-</u>	<u>-</u>	<u>11,779</u>	<u>11,779</u>
<u>31</u>	<u>37,328</u>	<u>11,779</u>	<u>49,107</u>
7,221	17,908	(2,422)	15,486
<u>224,615</u>	<u>615,678</u>	<u>241,811</u>	<u>857,489</u>
<u>\$ 231,836</u>	<u>\$ 633,586</u>	<u>\$ 239,389</u>	<u>\$ 872,975</u>

Charter Township of Niles**COMBINING STATEMENT OF FIDUCIARY NET ASSETS - pension trust funds**

December 31, 2006

	<i>General Government Pension Plan</i>	<i>Police and Fire Pension Plan</i>	<i>Totals</i>
ASSETS			
Cash	\$ 19,269	\$ 11,567	\$ 30,836
Investments	848,843	3,765,168	4,614,011
Due from other funds	<u>22</u>	<u>-</u>	<u>22</u>
Total assets	<u>868,134</u>	<u>3,776,735</u>	<u>4,644,869</u>
LIABILITIES			
Payables	-	5,132	5,132
Due to other funds	<u>-</u>	<u>502</u>	<u>502</u>
Total liabilities	<u>-</u>	<u>5,634</u>	<u>5,634</u>
NET ASSETS			
Reserved for employees' pension benefits	<u>\$ 868,134</u>	<u>\$ 3,771,101</u>	<u>\$ 4,639,235</u>

Charter Township of Niles
COMBINING STATEMENT OF CHANGES IN
FIDUCIARY NET ASSETS - *pension trust funds*
Short year ended December 31, 2006

	<u>General Government Pension Plan</u>	<u>Police and Fire Pension Plan</u>	<u>Totals</u>
ADDITIONS			
Contributions:			
Employer	\$ 37,645	\$ 28,313	\$ 65,958
Participants	<u>28,773</u>	<u>48,744</u>	<u>77,517</u>
Total contributions	66,418	77,057	143,475
Investment return	<u>40,993</u>	<u>170,371</u>	<u>211,364</u>
Total additions	107,411	247,428	354,839
DEDUCTIONS			
Benefits paid	<u>-</u>	<u>189,965</u>	<u>189,965</u>
NET INCREASE	107,411	57,463	164,874
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning	<u>760,723</u>	<u>3,713,638</u>	<u>4,474,361</u>
Ending	<u>\$ 868,134</u>	<u>\$ 3,771,101</u>	<u>\$ 4,639,235</u>

Charter Township of Niles

COMBINING STATEMENT OF FIDUCIARY NET ASSETS - *agency funds*

December 31, 2006

	<u><i>Trust and Agency</i></u>	<u><i>Tax Collection</i></u>	<u><i>Totals</i></u>
ASSETS			
Cash	<u>\$ 88,261</u>	<u>\$ 1,199,956</u>	<u>\$ 1,288,217</u>
 LIABILITIES			
Due to governmental units	\$ 7,098	\$ 1,199,956	\$ 1,207,054
Due to others	<u>81,163</u>	<u>-</u>	<u>81,163</u>
 Total liabilities	<u>\$ 88,261</u>	<u>\$ 1,199,956</u>	<u>\$ 1,288,217</u>

**Members of the Board of Trustees
Charter Township of Niles, Berrien County, Michigan**

In planning and performing our audit of the financial statements of the Charter Township of Niles as of and for the short year ended December 31, 2006, in accordance with U.S. generally accepted auditing standards, we considered the Charter Township of Niles' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

- The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of management, the Board of Trustees of the Charter Township of Niles, and the State of Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

Siegfried Crandall P.C.

June 19, 2007